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TWO TYPICAL THEORIES OF MONEY.

THE QUANTITY THEORY OF MONEY FROM THE MARXIST STAND-POINT

LEARNED contributors of the JOURNAL OF POLITICAL ECONOMY have frequently dealt with the quantity theory of money from opposite points of view, but none has taken that bold stand which becomes both the advocate and the critic. Each writer, it appeared to me, has written covertly for or covertly against the theory. On this side of the water the money question is not so often to the front, and consequently the quantity theory is not so often broached; but nevertheless there is one party which holds very decided views on the subject, namely, the Marxist school of economists.

Marx was bitterly opposed to the quantity theory, and attacked it in his usual blunt way, affirming that "the erroneous opinion that prices were determined by the quantity of the circulating medium was based, by those who first held it, on the absurd hypothesis that commodities are without a price, and money without a value when they first enter into circulation," meaning thereby that the quantity theorists presupposed a bulk of commodities and of money already in the market, which, like manna, descended from heaven, and was then put into circulation, an aliquot part of this medley of commodities exchanging for an aliquot part of the heap of precious metals. Such is the conclusion which Marx says he draws from the theorem laid down by the father or godfather of the quantity theory of money, John Locke. The well-known assertion of the eminent philosopher is "that mankind having consented to put an imaginary value upon gold and silver, the intrinsic value regarded in these metals is nothing but the quantity." There is no question here of indefiniteness. If it means anything, it means that the total quantity of commodities equals the total quantity of the money metal, therefore a single commodity as an aliquot part of the total quantity of commodities equals an aliquot part of the total quantity of money-gold.

So far as our experience goes the advocates of the quantity theory always shirk accepting the position of Locke — their only really logical

position, if quantity is to be adduced as a principle to solve the question of prices and value. If the advocates of the quantity theory find that they must throw over Locke they would better at once accept the Marxist historical view of the developed price form of value, and save themselves from the absurdities of an illogical position.

Locke, if an able philosopher, was an inconsistent one, and a poor economist, for, when he came to deal with an economic problem which puzzled him, he forsook his great principle, that the origin of all knowledge was based on experience, and resorted to the *a priori* method of argument to get a theorem to his liking. He had to give an explanation of certain economic phenomena. The occasion demanded a theory, and he accordingly formulated one. He was much in the position of Aristotle regarding the problem of exchange of money and commodities. Aristotle saw that an exchange implied a quantitative equation on a qualitative basis, but the qualitative substance on which that equation was based eluded him; and so, to satisfy the cravings of his logical and mathematical intellect, he argued to himself that it was a "makeshift" substance, whatever that may mean. Locke, like Aristotle, satisfied the cravings of his logical and philosophic mind, and then pursued his course, assuming that everybody would be as well satisfied as he was himself with the solution of the problem. Certainly, the theory was very plausible. It sounded scientific, and was charming in its simplicity. It seemed sent, like the Malthusian theory of the law of population, to suit the needs of the hour. The system of production at that time also helped to give credence to the theory. The staple industries of England were comparatively few, and were carried on year after year without any startling changes, which had the tendency to make money and commodities appear to have a fixed ratio. New discoveries in gold only helped the theory. If prices rose through a sudden influx of gold the problem was easily solved. The advocates of the quantity theory had only to explain that the quantity of gold-money had increased relatively to the amount of commodities, the rise in prices was explained, and the theory was confirmed.

Locke, and all the quantity theorists show that they misunderstand the origin and growth of money when they assume that it has an "intrinsic" value. The phrase, when thoroughly examined, is meaningless. Money and commodities imply a quantitative equation with a qualitative unit as a basis of measurement. To express the "intrinsic"

sic" value of a quantity of money in terms of another commodity, it must equate itself to another commodity of like "intrinsic" value. But, apparently, such a commodity is missing! What is a unit of "intrinsic" value? If such a unit was demonstrable, it would give the quantity theorists something tangible to work upon.

When dealing with the relative form of value Marx points out that the "magnitudes of different things can be compared quantitatively only when those magnitudes are expressed in terms of the same unit. It is only as expressions of such a unit that they are of the same denomination, and therefore commensurable."

How does this accepted general proposition apply to the quantity theory? Commodities exchange with money. The intrinsic unit, according to Locke, in which they are measured as being of the same denomination, is quantity. Money confronts commodities. Quantity has here to act as the unit or qualitative substance of measurement. But it is precisely at this point that our "intrinsic" unit leaves us in a quandary.

For example, we want to express the value of a sixpence relative to a four-pound loaf of bread; analyzing the intrinsic properties of quantity existing between two commodities, as stated by Locke, the relation of number presses itself to the front. We can regard sixpence as the unit in one case and a four-pound loaf as the unit in the other. Increase the number of loaves and their price should fall. What does experience say to this? More bread is sold in cold weather than in hot, but experience teaches us that the price of bread does not vary with the quantity produced. Again in this country during the past few years the sales of tan boots have increased in number, but their value has not fallen proportionately to the quantity of money as it should if the quantity theory held good.

But perhaps Locke viewed quantity from another point of view. Perhaps he had an eye to the intrinsic properties of money and commodities relative to their weight or bulk. We will put the question then: Is it the weight in the sixpence and in the four-pound loaf which gives them their equivalence? No. It would never do to give four pounds of sixpences for a four-pound loaf! Is it, then, their bulk which acts as the "intrinsic" property? No. That would be worse than measuring by their weight! We should require a motor car to carry about our small change, if a van load of bread exchanged for a van load of silver.

It is obvious when we consider the intrinsic properties of the "quantity" of silver and bread in the light of their number or physical properties that we fail to find a qualitative attribute which can act as a means of measurement.

The terms of equivalence in exchange impose upon us the condition that the two quantities of silver and bread should be considered from their qualitative as well as their quantitative aspect. Transform our two commodities considered as quantities into qualitative magnitudes, and as we have seen they become astral bodies without form, size, weight, or color by which they, as exchange-values can be compared. As quantities destitute of qualities, they are incommensurable and, even if we by hypostatization transform them into qualities, we should, by transforming the two commodities as "intrinsic quantities" into qualitative substances lose them as quantitative magnitudes, and consequently have nothing to measure. The fact is that Locke and his followers commit philosophic suicide when they turn a commodity as a quantity into a quality, or "intrinsic" property. Locke overlooked the relative and equivalent terms of his equation. He never attempted to give us the basis of his conception of a unit quantity as an "intrinsic property," an unpardonable omission on his part, bearing in mind that he devoted the third chapter of his *Essay on the Human Understanding* entirely to a discussion of the misapprehensions arising out of language, to which he attributed all the fallacies of the metaphysicians.

Locke's formulation of the quantity theory has proved too crude for even his own followers. Anxious to maintain his position and to shed the luster of their own talents upon the matter, they have grafted upon Locke's statement the theory of supply and demand, and with this modification the quantity theory is now generally presented.

Coming down to present advocates of these views we find that the Rt. Hon. Lord Farrer, on behalf of the "Gold Standard Defence Association," has recently issued a pamphlet on the *The Quantitative Theory of Money and Prices* in which he fathers the theory of supply and demand, displaying it in bold type that the reader may not mistake him.

What is supply and demand in the abstract? Nothing but bare quantities. Exactly Locke's position! Thus Farrer leaves the question where he found it, and his bimetallist opponents consequently remain unscathed by his criticisms.

Marx is perfectly clear on the money-form of a commodity. He proves that money is a commodity and subject to the law of cost of production (as governed by social human labor) like its fellows. The function of money, he says, is to find a material in which to express the value of commodities as magnitudes of the same denomination qualitatively equal and quantitatively comparable. The material gold meets these requirements. It is of the same denomination as any other commodity because it is a product of human labor; it is qualitatively equal and therefore comparable for the same reason; and it is capable of being divided up, the relation of each aliquot part being ascertainable by means of its weight. Gold on the basis of its cost of production thus possesses all the attributes necessary for the purpose of a social equivalent and measure of value, besides embracing the ideal price form.

John Stuart Mill admitted that money was governed by its cost of production, but from a misconception, or lack of knowledge of the equivalent form of value, he was led to assert that there was a connection between the value of money and its quantity. He says :

There really is, in one respect, a closer connection between the value of money and its quantity than between the values of other things and their quantity. The value of other things conforms to the changes in the cost of production without requiring, as a condition, that there should be any actual alteration of the supply; the potential alteration is sufficient, and, even if there be an actual alteration, it is but a temporary one, except in so far as the altered value may make a difference in the demand, and so require an increase or diminution of supply, as a consequence, not a cause, of the alteration of value. Now, this is also true of gold and silver, considered as articles of expenditure for ornament and luxury; but it is not true of money. If the cost of production of gold were reduced one-fourth by the discovery of more fertile mines it might happen that there would not be more of it bought for plate, gilding, or jewelry than before, and, if so, though the value would fall, the quantity extracted from the mines for these purposes would be no greater than previously. Not so with the portion used as money; that portion could not fall in value one-fourth, unless actually increased one-fourth; for, at prices one-fourth higher, one-fourth more money would be required to make the accustomed purchases, and if this were not forthcoming some of the commodities would be without purchasers, and prices could not be kept up. Alterations, therefore, in the cost of production of the precious metals do not act upon the value of money except just in proportion as they increase or diminish its quantity, which cannot be said of any other commodity. It would, therefore, I conceive, be an error, both scientifically and

practically, to discard the proposition which asserts a connection between the value of money and its quantity.

For fear that Mill's position may not be at once grasped by the reader, we venture to give an example to illustrate his meaning. Mill says: If 100 chairs costing £50 became reduced in value one-half the manufacturer would not have to increase the number of chairs to 200 to show that they had fallen 50 per cent. in value. His chairs would show that they had fallen 50 per cent. in value by exchanging for £25—just one-half the first price. When we come to deal with a fall in the value of money the position of money and commodities becomes reversed. Supposing gold to fall in value one-half instead of the chairs, gold would have to increase its quantity 100 per cent., that is, a hundred sovereigns instead of fifty would be needed to express the value of the chairs.

Because money has to increase its quantity to express its fall in contradistinction to commodities whose quantity remains stationary under the circumstances, Mill asserted that there was a connection between the value of money and its quantity.

If Mill had adhered to his cost of production theory he would have discovered that social-labor governed the expression both of commodities and money, and that the seeming variation was due to the equivalent form of value, such variation happening because money has no price-form of value.

Money is the legally recognized equivalent—and, we might add, also the universal social equivalent. Now, if we insist upon the equivalent representing a given quantity of social-labor—say twenty hours—surely we should not regard it as singular that gold should double its quantity to express its fall in value, supposing the labor-time taken to produce a sovereign became reduced one-half. The same result would happen to any commodity which took up the position of equivalent. If we demand the expression of twenty hours of social-labor then the concrete expression of value as expressed by commodities must conform to the hours of labor. Quantity is thus not the cause of value but an effect attending its expression. Mill says if money falls one-fourth then there must be one-fourth more sovereigns to denote its fall. Naturally, this must be so if the same amount of social-labor is expressed. That is the only way open to it under exchange.

Supposing a man turn out a hundred chairs in a week, they repre-

sent the equivalent of a week's labor. By improved instruments he now produces as an equivalent two hundred chairs in a week. To express a week's labor 100 chairs must give place to 200 chairs. The same argument applies to money.

Leaving the equivalent form of value which money represents, and turning our attention to the relative form (the opposite pole of the equivalent) of commodities, we find different conditions obtain). This time we have only to express the social-labor in a given quantity of commodities. We had before to express a fixed quantity of social-labor by means of commodities. The hundred chairs now fall one-half. But there is no need to double the quantity of chairs to express their fall because we can do so by the price form of value which allows us to express their value in gold and in aliquot parts of gold. Money having no price-form or reckoning-form is denied this facility of expression of value peculiar to the relative form. Of course gold could be priced in any commodity, but then it would lose its equivalent form, and therefore its money form, and the terms of our argument are that it remains in the equivalent form.

If Mill, like Marx, had studied the development of the money-form of commodities I believe he would not have been led to father the quantity theory, but would have completely discarded it.

Professor Stanley Jevons also had some strange ideas about quantity in relation to money. I really think he was half inclined to deny the material mineral stratum underlying gold-money, and to accept the possibility of an absolute paper-money. At any rate, in his *Money and the Mechanism of Exchange* he asserts that a certain quantity of inconvertible paper can be foisted on a community.

It is very probable that a government under specious pretences might foist a certain quantity of paper-money upon the community without any return ; just as a fraudulent business man, who, on the strength of a good trade has obtained credit, can get commodities on his note of hand under the belief that he will redeem his promises and meet his liabilities. Such a man can play with the market up to a certain point ; but it is evident that he must eventually collapse.

The same thing would happen with government paper-money. A certain quantity might be borne by the community with its vast resources for producing and accumulating wealth. But let the government use the notes beyond a certain point and a hitch would occur. The notes, it would be suddenly discovered, represent only paper and

printers' ink. A government can commit petty larceny on a community for a time just as a shop assistant may commit petty larceny behind the counter. Inconvertible notes, like false credit, might possibly be accepted through the ignorance of the people, up to a certain point. But discovery means collapse; and if Jevons had pursued his investigations farther he would have seen the ridiculousness of a piece of paper being able to masquerade for long as a *bona fide* equivalent.

Money is governed by the same laws which control other commodities. We may imagine "intrinsic" properties for money, and play tricks with paper symbols which represent it, but time will surely expose the absurdity of them all.

A. P. HAZELL.

LONDON.

STABLE MONEY.¹

[Question may arise as to the citations of fact in the following paper; but since its chief interest lies in the line of argument adopted, rather than in the data to which it has recourse, it has been printed without change.—EDITOR.]

I DESIRE briefly to speak of what is probably one of the most important considerations in the science of money and in the reform of our monetary system. I refer to the establishment of *stable money* and its correlary, stable general prices.

I will first state five fundamental propositions:

1. Despite the difficulty some appear to experience in grasping the fact, there is, in addition to prices of *individual things* as wheat or iron or land, a *general average of prices* of all commodities taken together; or what has been not inaptly styled a "sea level of prices."
2. This sea level of prices may be statistically determined; in fact, it has for many years been thus determined for many commodities by such statisticians as Soetbeer, Jevons, the London economist, and others.
3. It may be graphically depicted in diagrammatic form (as in the accompanying chart) and may thus be presented to the eye at a glance.

¹ Paper read before the Omaha Monetary Congress.